



Outlook for pulpwood and chip supply to the Asian Pacific Rim

A multi-client proposal, available March 2019



HAWKINS WRIGHT

Why this report is needed - challenges in the global woodchip market

Fibre availability is a serious concern for Asian pulp producers. About 15Mt/y of Asian pulp production is largely dependent on imported woodchips. Demand is heavily concentrated in Japan and China, where imports of hardwood chips were 10.7M BDMT and 12.5M BDMT respectively in 2018. The Japanese paper industry is mature, but Japanese companies have established overseas plantations and integrated supply chains. Japanese chip imports have been rising incrementally since 2012. Meanwhile, Chinese pulp production continues to increase and Chinese companies are trying to secure an increasing proportion of their fibre needs under long-term contract arrangements. Over 2M t/y pulp capacity has recently been installed in Shandong, Jiangsu, and Hubei.

Availability of chips is getting tighter due to supply side issues. Australian exports will decline, perhaps by over 30% by 2024 due to lack of new planting. Investors can now receive higher returns by returning land to pasture and there is increased competition for fertile land from competing crops. Vietnam's chip exports grew to 10M BDMT in 2018, but are not likely to increase much further. The government is encouraging domestic businesses to add value to wood products. New pulp capacity will be added in Chile, Uruguay, and Brazil which will restrict the availability of chips from Latin America after 2021.

Following the start up of OKI Pulp & Paper mills in 2016, Indonesia now boasts around 10Mt/y kraft and dissolving pulp capacity. The leading producers have committed to use only plantation pulpwood, estimated at around 2.3M hectares: 1.6M in Sumatra and 0.7M in Kalimantan. However, about 50% of the Sumatran plantations have been established on peatlands which are vulnerable to fire, subsidence and flooding. The Indonesian government has placed a moratorium on further expansion on peat soils meaning burnt areas may not be re-planted. At the very least, the relocation of Indonesian plantations will result in higher wood costs. At worst, there may be a major fibre deficit. Indonesia is already moving from a net exporter of chips in 2017, to be a net importer in 2019.

The tightening woodchip market is driving prices higher and certain Asian mills are increasingly vulnerable during periods of low pulp prices. However, the economics of pulp production vary significantly depending on the grade of pulp (kraft, dissolving, or high yield), the location and age of the pulp mill, and whether pulp is integrated with paper production or supplied to the market (either dried or as wet-lap). Meanwhile, a hiatus in the pulp investment cycle combined with some consolidation promises a period of above trend pricing which may protect high cost mills in the medium term at least.

This report summarises the outlook for woodchip supply, demand, and prices, and summarises the risks and opportunities for both chip suppliers and pulp producers.

Asian imports of woodchips, 2018 (bone dry metric tonnes)

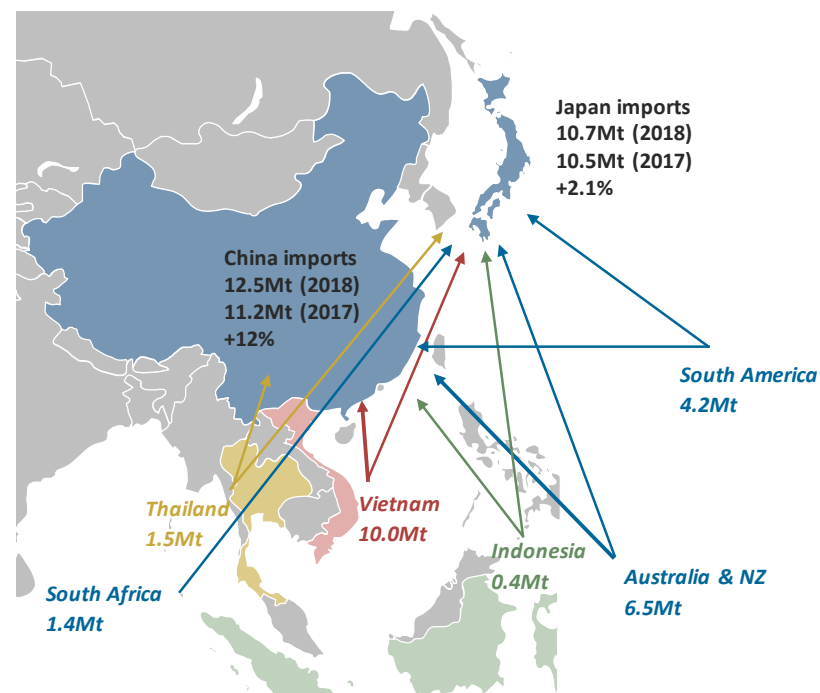


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